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COMMITTEE ON URBAN AFFAIRS
February 7, 2006
LB 1174, 1175, 1176

The Committee on Urban Affairs met at 1:30 p.m. on Tuesday, February 7, 2006, in Room 1510 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB 1174, LB 1175, and LB 1176. Senators present: Mike Friend, Chairperson; Jeanne Combs; Abbie Cornett; Ray Janssen; Dave Landis; DiAnna Schimek. Senators absent: Matt Connealy.

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SENATOR FRIEND: Welcome, everyone. I think we'll get started here. This is the Urban Affairs Committee. My name is Mike Friend. I represent northwest Omaha, District 10. To my left, let me introduce the panel. Senator Ray Janssen from Nickerson is on the far left; Senator Abbie Cornett from Bellevue; Senator Schimek is next to her but not here at the moment but we expect her shortly. To Senator Schimek's right is Beth Dinneen, the committee clerk; Bill Stadtwald, the legal counsel; he's preparing himself right now, is with us. And Senator Jeanne Combs from Milligan is with us as well. Senator Landis and Senator Connealy, I've been told, will be by shortly. Folks come and go introducing bills. If you're testifying, obviously, don't be taken aback by that. We're not disinterested. We're just, I guess, busy sometimes in other areas. I want to let you know if you have any cell phones, right away, cell phones or pagers, silence those for us. We would appreciate that. And if you're going to testify, if you're here to testify, you'll need to fill out a green sheet at one point or another. And also when you come up to testify, if you would state your name clearly and spell it for the record for the transcribers. Everything in these hearings is transcribed, so we're going to need you to do that for us as well. With that, I would say we can get started. We have three bills this afternoon. Two of the bills are Urban Affairs bills with some related subject matter. We're going to go ahead and address both LB 1175 and LB 1176 at the same time. Proponents I'll take first on both issues, opponents on one or both issues after that, and then neutral testimony following. Mr. Stadtwald will open on the Urban Affairs Committee bills LB 1175 and LB 1176. Bill?

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BILL STADTWALD: Okay. For the record, my name is Bill Stadtwald, S-t-a-d-t-w-a-l-d, research analyst for the Urban Affairs Committee, here to introduce LB 1175 and LB 1176, both which bills were introduced by the Urban Affairs Committee. Both of these bills have their genesis in, first of all, LB 163 which was introduced by Senator Bourne and heard by the Urban Affairs Committee last year, almost exactly one year ago, February 1, 2005. And then resulting from that, the study LR 188, which the committee introduced to further take a look at those issues. And you always hate to break a precedent, and I think this is one of the first times when an interim study actually accomplished what an interim study is supposed to accomplish, which is to move forward with the issue and perhaps provide a little more light on some of the issues that were there and even discovered some potential problems. I'll take them in reverse order because LB 1176 addresses what was principally the concern. Senator Bourne's bill was looking for a way of redistributing funds more equitably under the Mutual Finance Assistance Act. The Mutual Finance Assistance Act was enacted in 1988 with the passage of LB 1120, although the portion dealing with the Mutual Finance Assistance Act was actually LB 1119, which was amended into the LB 1120. At that point in time, the Legislature was just completing a major restructuring of the property tax system with designated levies for political subdivisions. Up until that time, each one of the political subdivisions that had property tax authority had its own little property tax levy. The Legislature, prior to that, had enacted a strict consolidated levy limit, assigned a set levy for each one of the political subdivisions, and for a number of what are generally referred to as miscellaneous political subdivisions, they no longer had a designated property tax levy. That included fire protection districts, both suburban and rural. They had to go to the county board on an annual basis and ask for a share of the 15 cent miscellaneous levy that the counties were authorized to designate for these various political subdivisions that no longer had a dedicated property tax levy. One of the concerns was that this was, first of all, creating some pressure upon county boards to provide funds for the various fire protection districts, and because there was a wide variance between levies requested by the various fire protection districts as they existed at that time. So part of the answer was the Mutual Finance Assistance Act which

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was a way for the fire protection districts within counties and across county lines to operate together under the Interlocal Cooperation Act or the Joint Public Agency Act to form an organization called the Mutual--now I've lost my train of thought--the Mutual Finance Organization, which would then have a single levy which would operate within each of the fire protection districts making up that Mutual Finance Organization. And they would then share in 10 percent of the insurance premiums tax that was available by the state, approximately \$3.6 million divided amongst those that qualified. The qualification was, essentially, that they had created a Mutual Finance Organization, according to the statutes, and that they had a single unitary levy, the same levy for all the fire protection districts. Then they would receive either \$10 per resident of the fire protection district or of the Mutual Finance Organization districts or a prorated share, depending upon how many of them were qualifying for it. We went into quite a bit of detail last year, and you'll find it also in your bill summaries, as to how that's calculated. Part of the formula places a significant...well, under the current formula, they're looking for the assumed population, which is the population of the county living outside city limits, and establishing that as a threshold to establish whether a Mutual Finance Organization was entitled to the assistance or not. Under the existing formula, there's an equal weighting for actual population and valuation. Last year's bill, LB 123, sought to reduce the population threshold. The approach of LB 1176 is to overweight, to double-weight the valuation outside the city limits, the idea being that when a fire protection district is concerned about dealing with its main function, which is to protect against fires or to deal with fires that may occur, the valuation may provide a better measure of what the actual concern is. If you're only single-weighting the valuation, the valuation is probably going to reflect what the population is, but it may not if you have a significant shopping mall, an industrial area, or some other major large structure which has no population as such but which, nevertheless, is going to create a significant cost to the fire protection district just to get itself prepared to deal with that kind of a threat. So the approach of LB 1176 is to double-weight the valuation figure to recognize that factor in the mix, and to essentially see what happens, see how that works out. And we'll be hearing some testimony today in the finest

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tradition of the Legislature as to what the real impact of that is upon various parties. We have Mr. Yank from the Treasurer's Office, which is responsible for doing the analysis and distribution of funds under the Mutual Finance Assistance Act. And you have also, in your bill summary, a tally sheet showing what the impact of LB 1176 would be upon existing applications and existing funds, as they're given out for that program. Having said that, we go back to LB 1175, which is an issue that came out of the discussions of the issue in LB 1176 during the course of the interim. One of the factors that's involved in the process of applying for funds is to prove that you have properly created a mutual finance organization, either under the Interlocal Cooperation Act or the Joint Public Agency Act. And one of the concerns that came out is that, in some instances, the organization which is being created is essentially a shell. It is essentially created for the purpose of qualifying for the state funding. And in order to indicate the significance of that, you have to go into the original Mutual Finance Organization Act itself. And the intent was to essentially create what amounts to a consolidated fire protection district. In fact, I'm going to read you just a couple of quotes from the actual comments that were made on the floor by the sponsors and the cosponsors as to what the intent was of the Mutual Finance Assistance Act. First quoting from Senator Bud Robinson, who was chair of the government committee, which actually was the principal bill, the committee amendment was the one that incorporated LB 1119. He said, "The first change," from the committee amendment, "is to insert provisions of LB 1119 with amendments. This is done in Sections 1 through 7 of the committee amendments. It creates a Mutual Finance Assistance Act. The Act creates an aid program to fire districts that are currently consolidated or which act to consolidate." Senator Wickersham, who is the principal sponsor of LB 1119 said, "But what we have in a number of instances are districts that have low resource bases in comparison to other districts, so they have levies that are higher than a neighboring district, and it simply has to do with their resource base. It's somewhat analogous to the school argument." He then says, "The other one...the other purpose of the bill..." is encouragement to participate in a fund that we would actually deliver state aid from a pool that is 10 percent of the state's share of the insurance premium tax, and distribute that on a per capita basis, if

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they will enter into an interlocal agreement creating a Mutual Finance Organization. And the Mutual Finance Organization has, as its purpose, to pool all the resources of the participants and then reallocate the proceeds from those resources back to the individual districts so they would have an identical levy in all of the districts." And we have referred in the past to the fact that one of the purposes of...or one of the qualifying factors was that all of the fire protection districts have the same levy. But in essence, what Senator Wickersham was saying and what the intent of the original bill was, was that there be one levy collected by the basic body and then reallocated back to the districts. It wasn't a matter that everybody did the same thing but that they all pooled what was available to them for use by the various districts. When they came to final reading, Senator Wickersham made the following comment. "The provision that you're asking about, the \$3.6 million is an incentive program, if you will." It will provide aid to fire districts that participate in what is characterized in the bill as a Mutual Finance Organization. A Mutual Finance Organization is an interlocal agreement that will call for the participating fire districts to have a single levy to support all of their operations. That single levy would probably be lower than the highest levy of those participating fire districts; it may be a little bit higher than the lowest levy of the participating fire districts. But by having them adopt a single levy for support of their operations, we will ease pressure on the county boards of their operations to provide for those rural and suburban fire protection districts. Because if you're able to lower the high levy, that means that you're going to have more of the 15 cents that's available to the county boards to allocate amongst the fire districts and the other competing miscellaneous districts. The incentive to engage in a Mutual Finance Organization is a state aid program. That's what would cost \$3.6 million, that state aid program for qualified districts. There's further evidence of this intent that this be more of a structured consolidated organization from the actual provisions of the act itself. If you look at the bill summary for LB 1176, I've provided a complete text of the Mutual Finance Assistance Act. If you look at 35-1204, where it defines the organization and creates it by agreement, it says, "The agreement shall contain a provision which requires all members of the Mutual Finance Organization to levy the same property tax rate

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within their boundaries for the purpose of jointly funding the operations of all members of the Mutual Finance Organization, except that the agreed upon property tax rate shall exclude levies for bonded indebtedness and lease-purchase contracts in existence on July 1, 1998." Now the clear implication is that if you're excluding those before that date, you were not excluding them after that date. It was the intent that there not be a separate bond indebtedness or lease-purchase levy for these individual organizations, that that was to become a function of the Mutual Finance Organization itself. That's the main purpose of LB 1176 is to deal with the perceived difference between what was the original intent of the bill and the expenditure of state funds in support of it, and what is the reality out there. It's not to point fingers at any individual fire district right now but to say that we need to provide more authority for the State Treasurer to inquire into what is actually going on with regard to the Mutual Finance Organizations. If, through the information which they provide to the Treasurer, and the additional information that would be required by this act, they can determine if it is actually a functioning organization that is doing what was originally intended, which was to serve as the central gatekeeper in finances for all of the fire protection districts, and that it would be allocating the funds within the organization itself and not just to the districts for the needs that may be there. And that was the purpose of LB 1176. If you have any questions.

SENATOR FRIEND: Thank you, Mr. Stadtwald. Are there any questions from the committee at this point? Very thorough. Thanks, Bill. We will take proponents first on LB 1175 and LB 1176. And, proponents first, if I didn't say that, and opponents second. So proponents, please come forward, if there are any. And we're going to try to limit testimony, if we can, folks. It's more of a rule than a law to five or so minutes. So we are kind of keeping track. So, proceed.

KEVIN EDWARDS: Senator, my name is Kevin Edwards, E-d-w-a-r-d-s. I'm the administrator for the Papillion and Millard fire districts. Chairman and senators of the Urban Affairs Committee, thank you for taking your time and effort to study the Mutual Finance Assistance Act. I think that the two bills that you have introduced are positive evolutionary changes to a successful state aid program. The

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provisions in LB 1175 will allow the State Treasurer's Office the ability to collect data on the MFOs that form and the impact of the aid to those communities. That data will allow the Treasurer's Office and the Legislature to be good stewards of the public's money through the aid program to ensure that the desired results of the program are being achieved. The formula changes in LB 1176 redistributes the aid dollars to those Mutual Finance Organizations that have high rural populations. The effect of the formula is that if an MFO with 40 percent or more of its population is rural, that is not in a city or village, will increase the amount of aid that they will receive. Approximately 56 percent or 19 of the current 34 MFOs will increase in aid. With that said, I will also comment that the Papillion Fire District would, in fact, qualify for aid under that formula in LB 1176. I think that we've talked about this before but it bears a little bit of revisiting is is that the Papillion Fire District and the city of Papillion have entered into a Mutual Finance Organization agreement through the Interlocal Agencies Act and we've been using it since 2002. We've used it two years with aid, and we've used it two years without aid, and it has worked very well with us during all of those years. We strove to meet the full intent of the act in requiring that all functions of our fire district and our city fire department are consolidated together. And we do that each year during our budgeting process, and we fully share equally by value every expense that we spend on fire protection whether it be bond, capital improvement, general operating, or any other nature. And I'd be glad to answer any questions.

SENATOR FRIEND: Thank you, Mr. Edwards. Any questions from the committee for Mr. Edwards at this point? Kevin, just one. And maybe I'm having trouble. You know and you can look at the green copy and understand based on the calculations that you folks made that it's pretty clear that you would fall under...because I guess...and I've had four conversations with Bill about this. And I'm not saying that I'm in a neutral or proponent or opponent position. I'm having trouble trying to decipher what kind of effect this is going to have but you guys didn't seem to have any difficulty with that, I guess is what I'm asking.

KEVIN EDWARDS: No, we haven't. And what it does is exactly as Bill had stated...

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SENATOR FRIEND: You're smarter than me.

KEVIN EDWARDS: ...is it...no, no...

SENATOR FRIEND: Keep that in mind.

KEVIN EDWARDS: ...is it double-weights the valuations that are in a Mutual Finance Organization that are not in a city. So for example, right now the formula currently assumes that for every dollar of valuation, there is a proportional person or population in that area. What this does is indicates that high value in a fire protection district may not necessarily have meant that there was specifically that much population but that that high value that's outside of the cities produces a needs load on that fire protection district to provide service. Ground that is in a rural fire protection district that is agricultural in nature doesn't have a particularly high value. But when there's a lot of improvements to properties, housing, factories, distributing centers, things of those natures, that the cities have not had an opportunity or did not seem economically fit to annex, then that creates a lot of need outside of the city limits that the rural fire district has to generate the dollars to provide service to.

SENATOR FRIEND: Okay. But then correct me if I'm wrong. Wouldn't some of the factors, denominators that we're using here, be dependent upon external human resource decision-making that it wasn't dependent on before, and so there is more of an unknown? I mean, when you're talking about valuation, I mean, is there room for error here?

KEVIN EDWARDS: Well, I think that the valuation, given the state's effort to try to equalize valuations across...in every county so that everybody's property is valued at an appropriate percentage, that takes some of that regard of error away. I think it's probably a little ambiguous but I can't think of a better formula to come up with as to relate value to property, or excuse me, value to population. As you know, the census bureau does not cut up population reporting circles or reporting areas, they don't cut it up by fire district boundaries. So it's very difficult for us to go out to any reliable source and identify specifically what the population is in a fire protection district.

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Because when we look at those types of reporting areas for the census bureau, they cut across district lines and it would be pretty hard to determine how much population in a census track is in that particular fire district and how much is in another fire protection district, or even cities, because they do have a tendency...well, they tend to follow the city boundaries because they have to utilize those for national reporting and stuff but as soon as they get into the rural area, they don't follow those fire district boundaries.

SENATOR FRIEND: Thank you. Were there any further questions for Mr. Edwards? Seeing none, thanks for testifying.

KEVIN EDWARDS: Thank you.

SENATOR FRIEND: Next proponent.

MICHAEL DINEEN: Good afternoon, Senator. My name is Michael Dineen, D-i-n-e-e-n. I'm the Fire Chief of the Millard Fire District. I speak in support of both LB 1175 and LB 1176. I think it is good business any time that you're dispensing taxpayer dollars, there should be some kind of mechanism in place to measure whether those funds are being used the way they were allocated to the particular receiving entity, so I speak in support of that. I also speak in support of LB 1176. I'd like to share with you that my department would be one of the departments that would suffer a loss in state aid due to the formula that is put forth, and if everybody of the 34 that are currently active in receiving that aid would qualify again next year, our amount of aid would drop. That being said, we still think that it's the fair thing to do across the state when you take the state and look at it as a whole. And I think that that is what your responsibility is, and also I think that that should be part of my responsibility also, as a member of the state and as one of the participating fire departments, to consider all our needs rather than just mine.

SENATOR FRIEND: Thank you, Mr. Dineen. Any questions from the committee? Mr. Dineen, how much...did you calculate how much you think that...

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MICHAEL DINEEN: We currently receive \$300,000.

SENATOR FRIEND: And you think that...

MICHAEL DINEEN: We would drop to \$237,000, I believe, according to the current proposed formula.

SENATOR: Okay. Any more questions from the committee? Seeing none, thanks for testifying.

MICHAEL DINEEN: Thank you.

SENATOR FRIEND: Next proponent.

JEFF STRAWN: Mr. Chairman, members of the committee, my name is Jeff Strawn, S-t-r-a-w-n. I'm here testifying as a proponent on LB 1175 and LB 1176 on behalf of our mayor, James Blinn, and the entire city council.

SENATOR FRIEND: Did you say opponent?

JEFF STRAWN: Proponent.

SENATOR FRIEND: I'm sorry. Okay, go ahead. Continue. I apologize.

JEFF STRAWN: ...again, on behalf of Mayor James Blinn, and our entire city council. This Mutual Finance Organization has worked well since 2002 for the first two years that we were able to receive aid within our fire department. However, for the last two years we were not successful in qualifying for the aid, so with the changes proposed before you, we would again qualify and it would lessen some of the burden that our city and fire district are experiencing with the rapid growth of our rural district. Call loads continue to rise in those areas outside of our city limits. It would reduce the mill levy based upon the proposal that you guys have, roughly 1.5 cents in our district. And again, our relationships with the Papillion Rural Fire Protection District has never been better, and I think this is exactly what the bill is set out to do is to partner and bear that burden equally among the fire department and the fire protection district. So again, Papillion is a proponent for LB 1175 and LB 1176, and I would be happy to answer any questions you may have.

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SENATOR FRIEND: Thank you. Were there any questions from the committee for Chief Strawn, correct?

JEFF STRAWN: Yes, sir.

SENATOR FRIEND: Chief? Seeing none.

JEFF STRAWN: Thank you.

SENATOR FRIEND: Thanks for testifying. Are there any more proponents? Last call. We will start on opposition testimony, if there is any. Any opponents?

JOSEPH BIRKEL: Good afternoon, Senator Friend, Chairman, Senators. My name is Joe Birkel. That's B-i-r-k-e-l. I am the Chairman of the Butler County Mutual Finance Organization. We were one of the first counties to form a MFO back in 1998 when Mutual Finance Assistance Act was formed. And we've been able to work together with our fire districts. We have nine different volunteer fire departments within our county, and they're all members of the MFO in Butler County. Totally, with the villages, we have 21 entities and we've got 100 percent participation, and we have since the onset. In voicing comments on LB 1175, I guess I would just comment on the way that we have handled it over the course of the last six or seven years as an MFO. We have a formula for distributing the MFO funds to the individual volunteer fire departments and their fire districts, and those individually then will make the decisions on the best need for those funds within their districts and their departments. For me, as a member of the MFO, to dictate how Bellwood or Rising City spends their funds, I'm not aware of exactly what their situation is, their needs are. So as a Chairman of the MFO in Butler County, I feel it is more proper for the local boards to make the decision and account for the spending that they have with their MFO funds.

SENATOR FRIEND: Thank you, Mr. Birkel. Are there questions from the committee? Just one, and maybe you're confusing me a little bit. Do you think that this would change either the pace of play for you guys in regard to...not only the pace of play but the amount that you're receiving? I mean, I'm not sure that I've gathered, Mr. Birkel, where the fear,

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I would suppose, would come from. I mean this does change the way the initial action is taking place on the front end. I mean, how the money is going to be decided...

JOSEPH BIRKEL: Are we talking LB 1175?

SENATOR FRIEND: ...in distribution. Well, both of them really. I mean we're clarifying with one and we are, for all intents and purposes, I guess, reforming with the other. We're changing the way that's stat aid formula works. So I guess my question for you is, just to be clear, you don't necessarily like the clarification, which I think you pointed out and made clear. But you're also a little worried about the formula and how that's going to affect...

JOSEPH BIRKEL: Yeah, I haven't spoken to the formula.

SENATOR FRIEND: Okay.

JOSEPH BIRKEL: The way the formula has worked in our county, like I said, we are 100 percent participation. And we have a population of about 8,400. So the funds are based on \$10 per person within the population of your county. When you work through the formula, we come very close to accounting for the population of our county. If you use the multiplier of two on the numerator side, what you're actually doing is you would be inflating the population over what the actual census is. You know, from my standpoint in Butler County, we would actually show an increase in funding that we would be eligible for. But my concern is, when you look at it statewide, are we getting a true and accurate picture of, you know, what the actual population is outside of the first-class cities. The valuation levels in our county, a lot of that is agricultural land. You know, and from county to county, you know, when you look at property values, you know, is it agricultural land, is it industry? You know, there's a lot of factors that come into play that account for the valuation within that county. And I'm not sure that by just multiplying it by two that it's going to give us an accurate summation of what the population and the need is there.

SENATOR FRIEND: Okay. That helps me. Were there any other questions for Mr. Birkel at this point? Okay. Thank you for testifying.

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JOSEPH BIRKEL: Thank you.

SENATOR FRIEND: I'm sorry, Ray, did you have a...Senator Janssen, did you have a question?

SENATOR JANSSEN: Only one question. Would you happen to know what the assessed valuation of Butler County is, if you take in all the county?

JOSEPH BIRKEL: I can't give you that right off the top of my head.

SENATOR JANSSEN: That's fine. Don't need to know.

SENATOR FRIEND: Thank you. Next opponent, please.

JAMES TEMPLAR: (Exhibit 1) Good afternoon, Senators. James Templar, T-e-m-p-l-a-r. I'm the Fire Chief at Gering Fire Department, and also am the President of Scotts Bluff County Mutual Finance Organization. I guess the thing I would like to express is the fact that it talked about united, combined, or joined together in undivided unity. Most of the fire departments in the state of Nebraska, of course, have formed mutual aid organizations where they help each other out in the event of large scale fires, structural fire, whatever it may be, but also then, expect that same return. And there's no funds that are involved in it. So the fire department has been doing this way before it become fashionable, I guess, to say that you had to join together and make it combined or whatever. Gering was part of an organization back in 1950, which basically took in the whole Panhandle of Nebraska. Since then, they've formed smaller groups of Mutual Aid Organizations, which they help each other out but had to meet the requirements of the insurance industries and stuff, so our workers' comp carried everybody, but never was no cost factors involved in that because everybody just came when you needed the help. But you let the local organization be able to function on that basis without the idea of having to have a higher levy or whatever. So the MFO, when it came out, really was a natural change for us to be able to form the MFO. Scotts Bluff County, I think, can be considered a model county to show you that the formula that you guys put together back in the late 80's, early 90's worked and has worked well until

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2002. Then all of a sudden it become an issue that it's not a good formula anymore. That doesn't make sense to me, I guess, in that aspect of it because every district is still eligible. It's determined how you decide you want to do it. If you want to be a combined group, county-wide, or if you have enough population...Scotts Bluff County has a population of 36,000. So we got a little bit of everything. We've got one of the smallest fire districts in the state involved in that county. We have 14 entities in Scotts Bluff County that belong to our MFO. And we did qualify for the full \$300,000, and that money was determined by all the entities involved. We met for about six months to determine how these funds would be able to be used because we were already working together, so it wasn't an issue of working together that caused any problems. It was the idea of how you were going to fund that, because you had first class cities along with small rural fire districts and villages. We assured that everybody was going to receive a minimum amount, and I did make a copy of our distribution thing for you, and I'll leave this here when I get done for everybody so you can see how Scotts Bluff County split up that money, so you can kind of get an idea how it works the way it is set up today. I guess I see it as, as a population, is an assumed population, so they put together a formula because it is impossible to find out what that population base is outside of the first-class cities and villages. Ours would be a little different because you don't have some of the industry you're talking about, but it did work to show that you had 80 percent of the assumed population as being accounted for in Scotts Bluff County. So therefore, we got a county-wide organization, not just individual fire districts, or maybe an individual city and fire district are together. We work as a county-wide, although we're not under any governing...and I hope that's not what you guys are intending, for everybody to be is governed under one body, because you take away that local and you're not going to have the fire departments that most of Nebraska is made up of, of local volunteer fire departments. It will be impossible to operate, I think, under a county-wide system and be able to do that. Our tax levies, as you talked about, Mr. Stadtwald talked about in the beginning was high and low, and we had to come to a medium there. We had some districts who were above five mills and some that were down to two mills. We settled on a 3.5 mill levy, it's a common levy, again was the purpose, so I'm just showing you that

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the monies you're going to get in state aid would compensate everybody so that you did not have to have a higher levy. We are allowed by state statutes to have 10 mills. I think 3 mills, 3.5 mills is a bargain rate. And some of these other districts that are basically taking some of this same money and are not doing it county-wide, they are taking the maximum 10 mills. I think that becomes an issue that you guys need to look at, too, on how that fund is redistributed. The idea of a county making accountability back to the State Treasurer's Office, I don't think anybody would have any issues with that at all. When we developed this thing, we understood that it was a year-to-year basis, that there's no way you could guarantee the funds were going to be there the next year, because it was basically at the will of the senate if they wanted to have the MFO in place again next year. So all of the money, in Scotts Bluff County anyway, has been used for capital outlay, capital projects whether it's adding on to a building, purchasing equipment, or whatever. It never is tied to operating costs because you couldn't depend on that because it could be gone the next year. But I just think it's worked well and it's amazing when all of a sudden it doesn't fit somebody's needs, we have to start making changes. Because I can see that there is some issues because we don't deal with the large population base as you back here, so I don't understand that, so I don't have a full comprehension of that. But I know what it's done in Scotts Bluff County. Like I said, we do have two first-class cities in Scotts Bluff County, so we had to balance that out with the small villages and the very small rural districts. And everybody has been very pleased with it and I would hate to see anything change. We do show, in the change that you were making by that common denominator being doubled, we would lose about \$60,000 in Scotts Bluff County. Is that the end of the world? No. You know, if there's some way that we can make the thing work for everybody that's better, I understand that. But I honestly think that you figured out the formula to figure out what the population is and now it becomes a point of people getting together. And if it has to be county-wide or whatever, maybe you need to increase the maximum levy of \$300,000 rather than just \$300,000 total, that you could increase that amount that some of those larger population counties could get some more money if there's some more money put in that pool. You basically use up the money now. There's no money left each year of

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that \$3.65 million. If there are any questions, I'll try to answer them for you.

SENATOR FRIEND: Thank you, Mr. Templar. Any questions? Senator Cornett has a question.

SENATOR CORNETT: When you said that this basically is just changing it to affect a small number of people, correct, or a small number of fire districts?

JAMES TEMPLAR: I would say fire districts, yeah.

SENATOR CORNETT: Which fire districts would you be referring to?

JAMES TEMPLAR: Well, I mean the best that I understand that when Papillion did not qualify, then all of a sudden we started having some changes. And I don't know if that's fair...I'm not necessarily picking on Papillion because they were in it before.

SENATOR CORNETT: So basically, this is just targeted to fix Papillion's problem, correct?

JAMES TEMPLAR: I don't know that. But it sure seems that way because it's been working very well from 1998 to 2002 and it was okay then. And then, all of a sudden they didn't qualify, then all of a sudden we're having to make all these changes. Making changes in the denominator and everything else. I guess I come from Senator Wickersham's area, so we protect part of his area when he did this, and I don't see that there was...it's a difficult formula. I mean it is hard to figure out. When we started, we weren't one of the first ones in this, and it did not make sense to us and we did not follow it. Took a couple years before we saw some other counties were doing it before we actually got involved and understood how to do that to make it work, so.

SENATOR CORNETT: The way it's written, it wouldn't currently help any of the other fire districts in Sarpy County though, would it, such as Bellevue?

JAMES TEMPLAR: I don't know that. They all qualify if they want get together on the same levy, they qualify now. They'd have to get together, form the mutual aid group, but

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there's a maximum of \$300,000. That's the problem.

SENATOR COMBS: Yeah. But this isn't targeted for any one specifically, except Papillion?

JAMES TEMPLAR: I don't know that. I can't answer that.

SENATOR FRIEND: Any more questions from the committee? Senator Janssen.

SENATOR JANSSEN: Jim, just one statement. We won't hold that against you because you come from Wickersham's district. (Laughter)

JAMES TEMPLAR: Okay.

SENATOR FRIEND: James, I had a quick question.

JAMES TEMPLAR: Yes.

SENATOR FRIEND: And just to get your reaction, more or less. What happens... in the current statute pretty much says that the assumed county population is based on the most recent estimates of the United States Bureau of the Census for counties and then minus estimated population of the cities of the first primary class, metropolitan class. Doesn't that worry you a little bit, and we're talking census years, that, you know, 2000, everything worked out fine. What happens in 2010, hypothetically, if things are not as you folks out there expected them in regard to population numbers? I mean, and you can't turn that ship around real quick. Once you realize that you've got a population problem, then there could be a problem with the state in regard to that state aid formula. So I mean, is that a little troubling?

JAMES TEMPLAR: Understandably. It is for us because we are right borderline of qualifying each year. We have one rural district that chose not to join this thing originally. They have now signed on, they're going to join this year. The reason was their mill levy was low enough, they did not want...you know, it was ranchers. They did not want to raise their mill levy to match the 3.5. They were only at 2 mills. They since now have not been able to keep up. I mean, inflation has went along and with the county

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commissioners now dictating to what you get for a fire district, you can no longer go in and say, well, we need this x-amount this year. You know, they're limited. You know, when they went to the 15 cents. So now they have asked to join it and they were going to have to come up to the common levy to do that. So it has been an issue for us always of population. But I presume that there's somewhere along the line that it worked out, you know, as long as you had the majority of the population or the valuation of the county involved. And like I said, we've been really close. So you're right. Factors could change and I guess, then, if we didn't qualify, we'd play with that each year, where we've been...made it by 300 or 400 people is all we've made it by. So it is a concern.

SENATOR FRIEND: Interesting. All right. Any more questions from the committee? Thank you, James.

JAMES TEMPLAR: Thank you.

SENATOR FRIEND: Next opponent.

PAUL PEDERSEN: My name is Paul Pedersen, and I'm the Chief of the North Platte Fire Department and also Chairman of the Lincoln County MFO.

SENATOR FRIEND: Paul, could you spell your last name for the record?

PAUL PEDERSEN: P-e-d-e-r-s-e-n.

SENATOR FRIEND: Thank you.

PAUL PEDERSEN: And there's a couple of things. I'm going to start with LB 1175. And my concern is pretty much the same area as Mr. Templar's, which it seems as if it wants to make the MFO board the Fire and Emergency Service Authority for the county. And there's...we started with 12 entities within our MFO, and one of the...Hershey and Hershey rural merged, so there's 11 now. But these communities and these rural boards, they know their needs better than the MFO board. The board members are all members...the MFO board members are all members of one or the other boards, or appointed by a village or a city to that board. So we just

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represent primarily the board or the section of the county to the MFO board for that. So I don't think that the rural boards really anticipate giving authority to the MFO board for their operations and decisions as far as if they need a new fire truck or they need a new fire hall or something of that nature, which reminds me of one other thing. The 1998 for bonded indebtedness was brought up earlier. It never occurred to us that that gave the board authority for the future. We just thought that that would let in boards or villages that had just taken on a large indebtedness such as happened with Wallace. They had just built a new fire station and they were up to 6 or 7 mills, and they were able to still come into the MFO under that provision. So, have no problems with the accountability requested by the Treasurer's Office on how the funds are distributed. How they will be distributed in future years is a little bit of a concern because, as was mentioned earlier, we don't know if the appropriation is going to continue or not, or how many MFOs may be there, how many funds may be available and that sort of thing, so...LB 1176, just looking at the numbers that have been provided by the Treasurer's Office, it looks like the formula is going to shift the emphasis for fund disbursement from people to property. And that's kind of, in effect, what it does. It takes money out of the more populous MFOs and puts them into the smaller rural districts. And that's what it seems to do, at least. And so, since it negatively affects our MFO in Lincoln County, we're opposed to that.

SENATOR FRIEND: Thank you, Mr. Pedersen, or Chief Pedersen, excuse me. Any questions from the committee?

PAUL PEDERSEN: Thank you.

SENATOR FRIEND: Seeing none, thanks for coming in. Any more opposition?

SHANE WEIDNER: Good afternoon, committee members. My name's Shane Weidner, W-e-i-d-n-e-r, and I'm the Fire Chief in Norfolk, Nebraska and Secretary of Madison County Mutual Finance Organization. I'm going to be real brief. My colleagues in opposition have stated exactly what I wanted to say. I just wanted to add that, and reinforce the fact that MFO formulas are currently working and working well. The entity that provided the legwork and the sweat and the

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blood and tears that it could get to a common levy over the years, have done so with a lot of work of bringing paid fire departments together with volunteer organizations and getting to a levy that's common. And that wasn't an easy task but nevertheless, the MFOs that are currently in existence have done that and, again, it's my belief that other folks that want to organize Mutual Finance Organizations have the ability to do that if they're able to put in the sweat equity that it takes to make that happen. So with that being said, I'd hate to see us change a formula just to satisfy the needs of the individual or the unique needs of some fire districts or fire departments, even though I do feel for them. I could appreciate very much Papillion's position and would not like to be in a similar situation. Being's a mistake being made, not on Papillion's fault at all. They applied and were awarded but the mistake that was made at the state level. So I understand their concern and understand their frustration with the formula, but the formula is in existence and they would qualify if they just did sweat equity that the rest of us did. So with that being said, I would be happy to answer any questions that you may have of me.

SENATOR FRIEND: Thank you, Chief Weidner. Any questions from the committee?

SHANE WEIDNER: Thank you.

SENATOR FRIEND: Senator Combs.

SHANE WEIDNER: Oh, I'm sorry.

SENATOR COMBS: Thank you. Just very quickly, could you just describe maybe, from a task perspective, what kind of sweat equity things do you feel like that Norfolk did that Papillion failed to do, what you guys did that they did not?

SHANE WEIDNER: Well, Norfolk is in Madison County, of course, and we were at 6.6 cents levy. We were the highest in the county. And one of our smaller districts in the county is the Madison Rural Fire District and they were just under 2 cents at 1.9. And we're dealing with their rural fire board, and when we had to organize, we had to bring those folks together to meet that common levy. So we basically had to convince or talk each other into one

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raising their levy and one lowering it. So we lowered ours to 4 cents. They raised theirs to 4 cents. And it was almost a wash for...they doubled theirs and we almost halved ours, not quite, but that kind of sweat equity just doesn't happen overnight. You have to really talk it through and understand the ramifications of the program and the benefits of the program and what it means to your fire districts and what it means to the people that you protect out there. So that sweat equity is what transpired in, I would assume, all the MFOs across the state. And when you have that ability it's tough to do that, especially when you're probably towards a larger city such as Papillion. You know, they're surrounded by a larger city and a larger population base, and their needs may be different, but I don't believe that Papillion Fire's needs are probably much different than Norfolk Fire Department's needs, as far as funding their paid staff and all the equity that goes with that. So that's what I mean by that.

SENATOR COMBS: Thank you very much.

SHANE WEIDNER: You're welcome.

SENATOR FRIEND: Thank you. Any more questions from the committee for Chief Weidner? Seeing none, thanks for testifying. Next opponent, please.

JERRY STILMOCK: Good afternoon, Senators. Jerry Stilmock, S-t-i-l-m-o-c-k, registered lobbyist on behalf of the Nebraska State Volunteer Firefighters Association, testifying in opposition. To continue on with the last question and that issue, there is nothing that's stopping Sarpy County from going out and forming an MFO. There's nothing stopping the fire district outside of Papillion to go about and do what the other 33 entities did throughout Nebraska and that's to gather, through a lot of work and a lot of good-intentioned work to make sure that that 80 percent of the population was being brought in to participate. I think that's the underlying thing. And I look at and I reread and I read Senator Wickersham's comments as Mr. Stadtwald shared with you a little bit today, but the intent, is my understanding, the intent of the Legislature was to bring together several different entities to participate so that at least 80 percent of that population was involved in trying to set that common levy

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and then participate in the state aid. When...it's only brief, but if I may...it's already in the record once on Select File on LB 1120, but Senator Wickersham said...but I think talking about the act...I think it carries out more fully the intent of the bill, what the intent of the bill was--making this a broad-based effort to provide an assistance program to fire districts if they'll meet the qualifications of levying out their resources and being able to serve at least 80 percent of the residents in the county. So you have someone like Boone County who came in for the first time for the county seat of Albion. Boone County came in for the first time after over a year of work to gather those people together to make sure they met the population requirement of 80 percent. Granted, maybe the 80 percent was...do you pick 60 percent, do you pick 90 percent, do you pick 80 percent? The concept was to spread it out among the counties so that there's a broad base. Sarpy County can go out and do that today. Papillion relays a situation that they've said, it's working for us and it's working well since 2002. And I shared this with members of the committee in Fremont during the interim study. There were other issues going on with Papillion at the time. It's not as if the MFO and the \$300,000 that they received was the saving grace, but I don't know of another fire department in the state of Nebraska that has come in and tried to obtain aid through the MFO the way Papillion is. It's multiple entities. It's multiple fire departments coming together to level out that...the high and the low levies so that fire protection can be uniformly met across the county. If...again, from the information that Mr. Yank provided from the Treasurer's Office, if LB 1176 with the arbitrary factor of the multiplier of 2 on the numerator in the formula were chosen, there would be 14 entities out of the 34 that would receive less funding in any year. What we do not know is who else would qualify, if anyone, that is not in the entities, and then what happens to the funding if even more entities come in because they say, oh, now there's this multiplier of two that's involved. Now we can get more and more entities coming in, which isn't necessarily a bad notion of more and more entities coming in, if it meets the precept of having a large contingent of that county participate or the MFO participating in putting together the MFO. There's been other people that testified in the category of in opposition to the bill of LB 1175. Nobody has a problem with sharing whatever information the

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Treasurer wants, certainly the Treasurer should have as to how the money is being spent. But in terms of changing that formula, an arbitrary number just to go somewhere.

SENATOR FRIEND: Yeah. Jerry, let me see if the committee's got any questions. Any questions from the committee on...?

SENATOR LANDIS: Do I take it that that means, Jerry, you're opposed to LB 1176? Are you opposed to LB 1175? I think you're saying you're not opposed to LB 1175. Is that right?

JERRY STILMOCK: Clearly, there's two parts, as I look at it. And the part that...for getting information to the State Treasurer, no, there would be no opposition to that. The part about adding definition in of what "jointly" means, we would oppose that. We oppose that.

SENATOR LANDIS: And one more shot as to why the definition is not a good idea? Any thought on that?

JERRY STILMOCK: I think from what the others said and the way that some of the MFOs are carrying out their function, they are carrying out the intent of what's happening right now.

SENATOR LANDIS: And they might not fit that definition for jointly?

JERRY STILMOCK: Oh, I think it's a matter of, it's not broken, does it really need fixing, Senator? I don't think it's a matter of would they, yes or no, meet the definition. I think it's just a matter of, personally, legislation that doesn't need to happen.

SENATOR LANDIS: Thank you.

JERRY STILMOCK: Yes, sir.

SENATOR FRIEND: Thank you, Senator Landis. Any other questions from the committee? Jerry, we've already established that I have a learning disability in regard to this issue but I've got to tell you, if I was sitting out there looking in and looking at the language as it exists right now, I'd be real concerned about an estimated county population and sitting around waiting for the 2010 census.

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I mean that, to me, is real practical and it's real easy to figure out. It's also real troublesome. That would just be me. I'd be real worried about that, and I guess I want your reaction. I mean, your reaction to this: Why wouldn't you be worried? I mean, I don't get it. To me, cranking up...just to play devil's advocate...cranking it up to two times the evaluation gives you another way to say, we do not have to turn the Titanic away from this iceberg so quickly. I mean, you can't do it. You're not going to have time when 2010 rolls around to say let's turn this real quick. You could be out \$600,000. You could be out, you know, half a mil, whatever. Here you have two times the valuation. You might have an opportunity to plan, you know, beforehand, and you might have an opportunity to see what's on the horizon, as opposed to the 2010 census. Right now, they're all estimates. We have no idea. Everybody keeps talking about we're going to lose a third congressional seat out there. That's means our population's dwindling. I mean, I'm worried about that.

JERRY STILMOCK: Okay. But if the population for a county decreases, that's what we're talking about.

SENATOR FRIEND: Yeah, exactly.

JERRY STILMOCK: If something happens to that population in 2010, then the target number is going to proportionately decrease as well, so I'm not going to have to have as many participants.

SENATOR FRIEND: Yeah, but it's my understanding you have to plan for that. I mean you have to know, or else you're going to lose some money, just like Papillion did, even though that's a separate issue.

JERRY STILMOCK: Well, yes, it is.

SENATOR FRIEND: I mean, I would identify that.

JERRY STILMOCK: Thank you for granting me that, that it is a separate issue. But if the population of Scotts Bluff County decreases, so, too, then under the formula, the formula recognizes that right now that the target value of what Scotts Bluff County is going to have to reach in order to qualify, that number is going to come down as well. So

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I...bring on 2010. I don't think it's going to make any difference because that number is going to reduce itself anyway. We're not static in time, because the formula takes into consideration if my county loses population to Omaha or to Lincoln or to Grand Island, if my county loses population, then my target number, which is addressed in the existing law now, is going to be reduced as well. And so it recognizes that there could be a shift in population and it's not going to...I don't think it going to make any difference under the formula, as is the law now.

SENATOR FRIEND: Okay. Well, thanks.

JERRY STILMOCK: Yes, sir.

SENATOR FRIEND: Any other questions from the committee for Mr. Stilmock? Seeing none, thanks for the testimony.

JERRY STILMOCK: Okay. Thank you.

SENATOR FRIEND: Is there any more opposition to LB 1175 or LB 1176? We will start with neutral testimony then, and I believe somebody from the Treasurer's Office is here to maybe address some questions from the committee if we...Welcome.

SCOTT YANK: (Exhibit 2) Thank you. Good afternoon, Senator Friend, and members of the Urban Affairs Committee. For the record, my name is Scott Yank, Y-a-n-k. I'm the Deputy State Treasurer testifying on behalf of State Treasurer, Ron Ross. I'm here this afternoon to explain the administrative responsibilities of the State Treasurer in relation to the Mutual Finance Assistance Act, and to answer any questions you may have. The act provides aid to rural or suburban fire protection districts and mutual finance organizations for the purpose of financing operational and equipment needs for fire protection, emergency response, or training within their joint areas of operation. The Treasurer's Office receives applications under the act by July 1 of each year. The population and valuation figures of each applicant are entered into a spreadsheet designed by the Treasurer's Office that takes into account the calculation required by the act. The calculation is consistently applied on all applications received by our office. First, I complete the calculation, then I compare our results with the applicants.

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The calculations are also reviewed by our attorney. The Treasurer's Office follows up any questions we may have in relation to the applicants' information, in an effort to avoid any misunderstandings between our office and the applicants. Administratively, LB 1176 would have no impact on the Treasurer's Office. However, based on the applications we received in 2005, including Papillion, the change in the calculation would result in a total aid applied for being approximately \$4.6 million. With the current appropriation being \$3.65 million, the applications would then need to be prorated. The impact on this proration would be 21 applicants receiving additional aid while 14 applicants receiving less aid. Administratively, LB 1175 would require our office to obtain additional financial information to monitor the actual distribution of aid to the applicants. We estimate the additional workload on our office would be one-half of an FTE or an additional \$15,000 per year. Thank you, and I would call for any questions you may have.

SENATOR FRIEND: Thank you, Mr. Yank. Were there any questions from the committee? Was I obviously...I mean, evidently I am. Am I overplaying the population questions that I'm, I guess, worried about? Maybe there's no reason for me to worry about stuff like that.

SCOTT YANK: There could be, I guess there could be something to worry about. I mean it all depends what the 2010...I agree with what Jerry's saying, too. That target number would come down. I guess the concern would be, I would think, if you're losing rural population that that could affect that assumed population number as well. I guess that's the only thing I can see there. But it is a complex calculation, and actually, the calculation that we do, like I said, is consistent with the act and we don't seem to have any trouble with it at this time.

SENATOR FRIEND: Okay. Are there any other questions from the committee? Thanks for coming in. We sure appreciate it. Thanks for the information.

SCOTT YANK: Thank you. Sure.

SENATOR FRIEND: And that will effectively close the hearing on LB 1175 and LB 1176.

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SENATOR FRIEND: And I will open on LB 1174. Senator Schimek, will you take the committee chair for us?

SENATOR SCHIMEK: Senator Friend.

SENATOR FRIEND: Good afternoon, Madam Chairwoman. My name is Mike Friend. I represent northwest Omaha, District 10, Nebraska Legislature, and I am here to introduce LB 1174. This is, as the subject indicates, an act relating to rural water districts. And we're proposing to provide requirements and a process for the annexation of portions of such districts by cities and villages. Last year, Senator Wehrbein introduced LB 630. I think we all remember that one. The purpose was to add a new section to the statutes dealing with rural water districts, requiring cities and villages annexing portions of those districts to reimburse the district for lost revenue resulting from the loss of customers following the annexation. We think we established--we had a...in the hearing this summer we think we established that last year...or what I should say was that the bill itself, we felt, possibly didn't establish maybe the standard guidelines that we would require in order to, I guess, make a decision in regard to the district's loss of water customers, so we put that in Section 2 of this bill. "Any city annexing real property located within the boundaries of a rural water district shall compensate the rural water district for revenue loss by the district because of the district's loss of water customers." So we elaborated a little on that. In Section 3, the change...excuse me, in Section 4 the changes entail that all parties will be involved in the proper negotiation. If there is no resolution then the courts would have an obligation, or not an obligation, but the parties would have the opportunity, you know, to take the issue to district court. I think what we're trying to accomplish here is to solve what is a real problem, as Senator Wehrbein brought in last year, but we're having a difficult time getting our hands around how it could end up being solved. The committee's help is recommended, requested, asked for in order to try to come to a conclusion on this. But I think

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that there may be some folks that want to speak to this after me. I'd be happy to hear from them, as well, because we're looking to learn as much as we can about this problem. I think we have established that there is a problem. So I would be happy to answer any questions in regard to this.

SENATOR SCHIMEK: Thank you, Senator Friend. Are there any questions? Seeing none, we will now take proponents of the bill.

ALAN WOOD: Madam Chairman and members of the committee, Alan Wood. I serve as legal counsel for Rural Water District #1, Lancaster County, and Rural Water District #3, Cass and Otoe County, here in favor of LB 1174. I would report to the committee, and I thank you for the time that we spent last summer in Fremont. I think that was time well spent. As I review the bill in its present state, I think we still probably have some procedural problems that face us with regard to timing and just exactly when negotiations should carry on between the water district and the municipality seeking annexation. And also there's some clean up. I would recommend that this bill not be reported out at this time. I'll be happy to work with members of the committee and with Bill to see whether we can fine tune what we have right now, and then come back next year and get a good solution. I know it's a problem that's facing us. We're going to face it. It's going to come up sooner or later, and this is, you know, good policy, good government policy, but we want to make sure that when we do get this into the statute that it's the right procedure and we satisfy the needs of both sides of the equation. Be happy to answer any questions you might have.

SENATOR SCHIMEK: Thank you, Mr. Wood. Are there questions? Senator Landis.

SENATOR LANDIS: Gosh, Al, if we wanted to come up with an answer, wouldn't we report this bill out and wouldn't that motivate you to come up with some language this year rather than next year? Because I tell you, you know, that next year is an inviting frontier. But if, in fact, we're going to sit down and work something out, it doesn't take us 364 days to take a two-page bill and to draft better.

ALAN WOOD: Well, I'd be happy to do that, be happy to do

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that.

SENATOR LANDIS: And let me ask, Al, because I was looking at this thing. I wasn't exactly sure what was being compensated. It said "revenues," but let's imagine that you lose a customer who's \$800 of revenue in one year. But is that one year, two years, three years, five years? Is it amortized down to the life of the average customer? Is it one year's revenue or what? I couldn't exactly tell.

ALAN WOODS: It is revenue over the, really the life of the bonds. We are looking at the bonded indebtedness of a rural water district, and if annexation takes part of the district, then, and this is one place where I think the bill needs a little, little tinkering, then we...the district is at risk of losing existing customers or potential customers. And water districts, rural water districts were established in the late sixties, early seventies through USDA funding. One of the USDA requirements was that...and by the way, there's federal law that is already in place that accomplishes the same thing that this bill seeks to accomplish. But one of the requirements of falling within the federal law is that you have to make water available, not only to existing customers but to potential customers. So for instance, in Lancaster County, we've been able to work a formula so that we'll look, say, at 80 acres. In rural Lancaster County you cannot convey away less than 20 acres of that as subdivisions. So we apply the 20-acre rule to the 80-acre parcel and if there are no customers in that 80 acres, that would be four potential customers that we would be compensated for. If there's one customer and 60 acres left, then it would be one existing customer, which is usually a higher dollar amount, and three potential customers. But the whole idea at the end of the day is for the water district to be compensated for the revenue that it would receive over the life of the bonds in order to retire the bonds. The bonds were taken out and underwritten based on a certain customer base, which annexation takes away.

SENATOR LANDIS: And is the bond underwritten on the potential customer base or the actual customer base?

ALAN WOOD: Both, because it's based on the size of the district and the location of the water lines because you see, water lines are out there and available for potential

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customers, as well as existing customers. And it costs money to put the water lines in place.

SENATOR LANDIS: As you describe what is to be reimbursed, I think there is more particularity than the language that we find in the bill here. I think I get the concept you're talking about. Because you have a 20- year bond and that bond was underwritten by the ability to generate the money to pay off that bond. And if there were 200 customers whose expected contributions would have made that bond work and they get annexed into a city, the other folks who are paying for that bond are prejudiced by it.

ALAN WOOD: Absolutely.

SENATOR LANDIS: And the city is making no contribution to those bonds, but they've essentially taken the customers for their own water system.

ALAN WOOD: Yeah. The one situation I can give you, a real life situation, and that's the village of Cheney. All of the residents in village of Cheney are Rural Water District No. 1 customers. They don't have a municipal water system. There are 75 individual customers. Now if you look across the street, there's a Wal-Mart and a Menards, and I think development is coming, and I think annexation is coming sooner or later. When those 75 customers go away, it will represent almost 10 percent--not quite, really more like 7 percent--of the customer base in Rural Water District #1. That's a chunk. That could hurt.

SENATOR LANDIS: Thank you.

ALAN WOOD: Yes, Senator.

SENATOR JANSSEN: I have a question. If you have a rural water district that has a main going within, let's say, two miles of a town or a village, could that village or town request water and the rural water district says, well, we're not close enough? Who would be obligated, then, or could they be obligated to bring that line to that town or village?

ALAN WOOD: For service from the water district to the village?

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SENATOR JANSSEN: Yes.

ALAN WOOD: Um-hum. Normally it's a situation where we would sit down with the municipality and first of all have a good estimate of what it would cost to bring water to the village. Rural Water District #3 is going through right now with the village of Dunbar. They were able to get a CDBG grant to cover the cost of extending the line to Dunbar.

SENATOR JANSSEN: How far were they away from the existing village?

ALAN WOOD: They were, I believe, about five miles.

SENATOR JANSSEN: Oh.

ALAN WOOD: Could be four...four or five miles.

SENATOR JANSSEN: So they got a community development block grant...

ALAN WOOD: Block grant to cover the cost.

SENATOR JANSSEN: ...to cover the cost of bringing that water to that incorporated village?

ALAN WOOD: That's right, because they did not have a sufficient well capacity.

SENATOR JANSSEN: I think you're going find that...

ALAN WOOD: Oh, I agree. I agree.

SENATOR JANSSEN: ...more and more.

ALAN WOOD: And there are other villages, Otoe 3...I call them Lancaster 1, Otoe 3. Otoe 3 has probably five or six villages that it serves and sells bulk water to.

SENATOR JANSSEN: Thank you. Any other questions? We're losing chairmen here all the time. (Laughter) Seeing none, thank you.

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ALAN WOOD: Well, thank you very much.

SENATOR JANSSEN: You bet. Next proponent? Any other proponents? Any opponents? Here comes an opponent. I can't imagine that, Gary, that you're going to be an opponent today, after that question I just asked.

GARY KRUMLAND: Senator Janssen, members of the committee, my name is Gary Krumland, spelled K-r-u-m-l-a-n-d, representing the League of Nebraska Municipalities, appearing in opposition today to LB 1174. First of all, I want to note that we do appreciate that LB 1174 does address the concern we had with LB 630 last year, and that bill seemed to just stop annexation. This does recognize annexation and tries to develop a process to handle the financing. The concern we did have about the bill was one that I guess has already been talked about. It's just the language and how broad it is, and it probably needs to be narrowed and more focused, and that would probably help. I also maybe have a suggestion that some sort of mechanism for coordination when a rural water district is moving into the area that the city at some point in the near future will be moving out, so they can coordinate efforts. But based on the comments, I would be happy to work with the committee and with the proponents on the bill to see if we can come up with something that's mutually acceptable. I know in other states there's been major fights and court cases that have been very expensive for all the parties in fights between cities and rural water districts, and if we can avoid those in Nebraska by creating a procedure, that would be beneficial for everybody.

SENATOR JANSSEN: Any questions of Gary? None, thank you...oh, oh, David.

SENATOR LANDIS: Just a question. Gary, from your testimony it seems to me that you would acknowledge the point at which a city annexes a rural district's customers and undermines the funding of the bond that it has, that would be... you'd be able to understand that problem and some need for compensation makes some sense.

GARY KRUMLAND: Right. And I think the federal law probably covers that already, so if we can create a procedure in Nebraska so that everybody knows how to handle it and

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develop a way to deal with it, I think that would be beneficial for everybody.

SENATOR LANDIS: Thank you.

SENATOR JANSSEN: Any other questions? Thanks, Gary. Any other opponents? Anyone in neutral capacity? Seeing none, Senator Friend to close. He waives closing.

SENATOR LANDIS: Executive session, Mike?

SENATOR FRIEND: Yeah, I did want to read into the record on that before we close the hearing on LB 1174. I did get a letter from the City of Lincoln, Mayor Coleen Seng, in opposition to LB 1174 for similar reasons that the League is in opposition. But we will read that into the record. (Exhibit 3) And with that, that does close the hearing on LB 1174 and the hearings for the day. Do I have a motion?